



Adopting a Different Approach to University Budgeting February 10, 2016

1. **Purpose.** This document captures the analytical process and decision to change the Northwestern State University budgeting model from a Centralized Model to the more inclusive and transparent Planning, Programing, and Budget Execution (PPBE) model.
2. **Applicability.** All University employees will follow this budgeting model and process as described in the below text.
3. **Background**

On September 7, 2015, President Jim Henderson established and charged the Northwestern State University (NSU) Strategic Budgeting Committee with the following:

“Evaluate the current budgeting process, research alternative budgeting models, and recommend a budgeting model for NSULA that is transparent, predictable, robust, and aligned with the stated and published strategic goals of NSULA. Additionally, the committee is to develop a plan and timeline for implementing the new budgeting model.”

The committee membership of faculty and staff represented NSU’s very best. Leveraging diverse backgrounds and perspectives invoked original research and creative solutions.

The committee charged itself by establishing the guiding tenets of the new budget model: It would ideally include maximum participation by University stakeholders. It would be predictive in nature, looking over the horizon. The model would provide budgetary guidance early in the process to allow adequate time for subordinate budget development, but by not considering costs as a limiting factor, recommendation of requirements would be unrestrained. Each budget unit would brief requirements to the next higher authority in open forums. All requirements would support our strategic framework and be documented on a prioritized (1-N List). Later, the Strategic Planning & Budgeting Committee (SPBC) would be responsible for budget recommendations to the President’s Budget Advisory Council (PAC), and the President’s Budget Advisory Council will serve as the approving authority unless otherwise delegated. NSU will conduct semiannual (academic year) budgetary reviews to measure progress and make adjustments as required.

4. Existing Budget Process

For the past eight years, NSU operated under a Centralized Budgeting model. The 2008 economic downturn and instability served as the forcing function for the University to adopt a self-preservation budgeting methodology. Neutral or incremental allocations became the norm; essentially, just enough to keep the doors open. A small, select group of individuals made decisions rapidly while pooling funds into a reserve – anticipating the inevitable recall of funding. The group used this model largely because there had been a consistent reduction or absence of any additional (State) resources to allocate through a strategic approach that might include budget briefings, as was the norm prior to 2008. As a result, NSU's current budgeting process is not transparent and there is little support for the process by faculty and administrators. Neither infrastructure nor organizational requirements are being satisfied, and the process remains inconsistent in meeting our strategic intents.

5. Alternative Budget Process Analytical Overview

Since September 2015, the Strategic Budgeting Committee frequently convened to research and discussed alternative budget models, which included a review of available literature and analysis of processes used by similar universities. These included Auburn University, Youngstown State University, University of Washington, Indiana University, Austin Peay University, and Western Carolina University. Additionally, the committee sought and received an impartial assessment of NSU's budget process from a survey of faculty and staff.

The budget models considered by the Strategic Budgeting Committee include:

- A. Centralized Budget: Centralized decisions made by upper level administrators.
- B. Incremental Budget: Allocations based on funding levels of the previous year.
- C. Zero-Based Budget: Must re-request funding and re-justify every budget cycle.
- D. Activity-Based Budget: Awards financial resources to activities with greatest return.
- E. Planning, Programming, and Budget Execution: Allows long-range projections and cost benefit analyses to link plan and resource allocation.
- F. Performance-Based Budget: Resources based on outcomes achievement.
- G. Responsibility Center Management: Operational authority and resources given to each unit, responsible for own expenses – a subsidized tax/shared pool.

The committee then formulated six criteria to assess these alternative models in a decision matrix. The criteria used and defined are:

- A. Transparency: Maximize the audience's ability to understand what, how, and why decisions are made;
- B. Inclusiveness: Maximize the number of those included in the process to establish ownership;
- C. Balanced: Top down guidance and bottom up requirements are mutually supporting and tied to strategic plan;

- D. Easy to Understand: Minimal additional training is required to participate / execute;
- E. Implementation: Can be done in less than six months;
- F. Friction: Less is better amongst units – unhealthy competition for resources.

6. *Approved Budget Model*

The Strategic Budgeting Committee found that the Planning, Programing, and Budget Execution model best fit the tasks of the assigned mission. The model will provide the appropriate incentives; it will be inclusive, emphasizing a high level of transparency in concert with the principles of our strategic intent while providing the information necessary for sound decision-making, support innovation and entrepreneurship, and help the University maximize support from campus stakeholders and private donors.

On November 16, 2015, President Henderson approved the Strategic Budgeting Committees' recommendation to move forward and implement the Planning, Programming, and Budget Execution model, possibly within the next six months barring any unforeseen issues.

7. *The Planning, Programming, and Budget Execution (PPBE) Process*

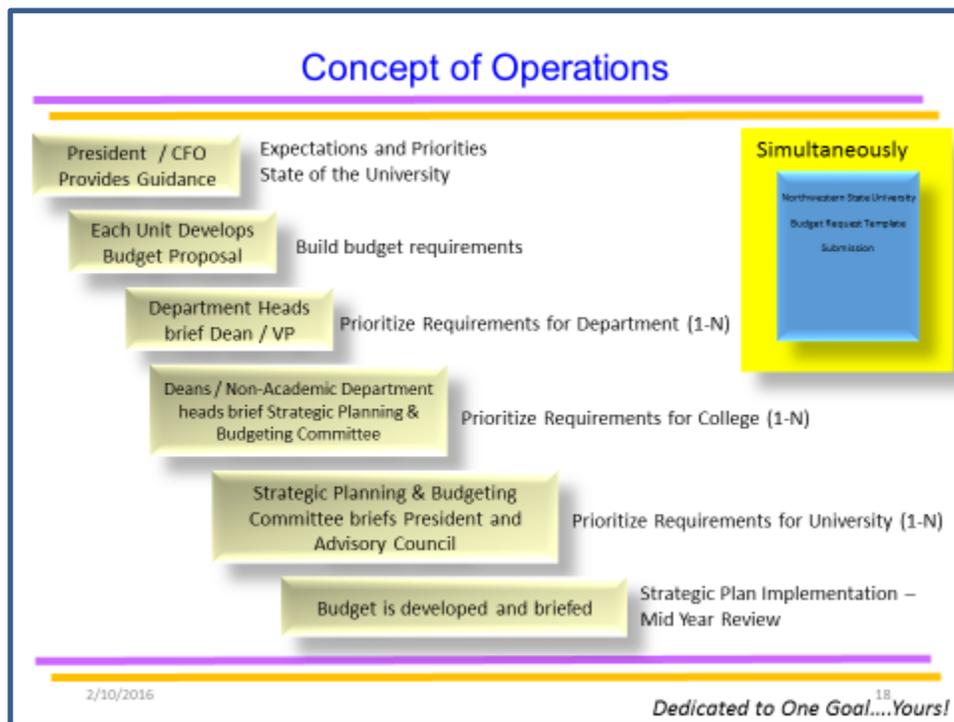
The PPBE model is a four phase overlapping process:

- A. **Planning.** The Planning Phase is the definition and examination of alternative strategies, the analysis of changing conditions and trends, threat, technology, and economic assessments in conjunction with efforts to understand change and the long-term implications of current choices and the guidance required to initiate the second phase. The University President owns this phase along with the Chief Financial Officer and anyone else deemed necessary by the President. The President briefs the “State of the University” to university personnel and other appropriate audience members ensuring to provide the desired guidance to allow for budget development. The PPBE calendar is presented as part of the session. The Strategic Planning and Budgeting Committee (SPBC) will develop the budget development calendar.
- B. **Programming Phase.** The Programming Phase begins immediately after the President disseminates budgetary guidance. This phase defines and analyzes requirements as envisioned to underpin our strategic framework and intents. In this phase, each organizational unit, operating with an independent budget, prepares and briefs its requirements to its next higher authority. For example, Deans will determine internal to their college who must develop and brief their budget requirements. Simultaneously, each unit prepares its NSU Budget Request Template as part of its submission. Once complete, the Dean will analyze each department's requirements, capturing each requirement into a prioritized 1-N list. Colleges will then brief the Strategic Planning and Budgeting Committee (SPBC) on their consolidated budget requirements. Administrative agencies/organizations will follow the same blueprint and brief their respective Vice Presidents or similar authority. University stakeholders

own this phase. The tangible products produced in this phase are the budget brief and corresponding Budget Request Template by each organization.

- C. **Budgeting.** The Budgeting Phase begins once all budgetary briefs are complete and all corresponding Budget Request Templates have been submitted. This phase includes review, formulation, justification, preparation, and presentation of the proposed NSU budget. The primary purpose is to have the Strategic Planning and Budgeting Committee (SPBC) scrutinize and prioritize the requirements presented during the programming phase by University subcomponents. The product of this phase is a budget proposal submitted to the President and his Advisory Council (PAC). This phase concludes with the production and presentation of a University budget in an open forum. The Strategic Planning and Budgeting Committee owns this phase.
- D. **Execution.** The Execution Phase is the real world application and begins once the President approves and presents the budget for the academic year. This phase includes a periodic evaluation via a mid-year review to assess budget execution to date and any necessary adjustments. The Chief Financial Officer owns this phase.

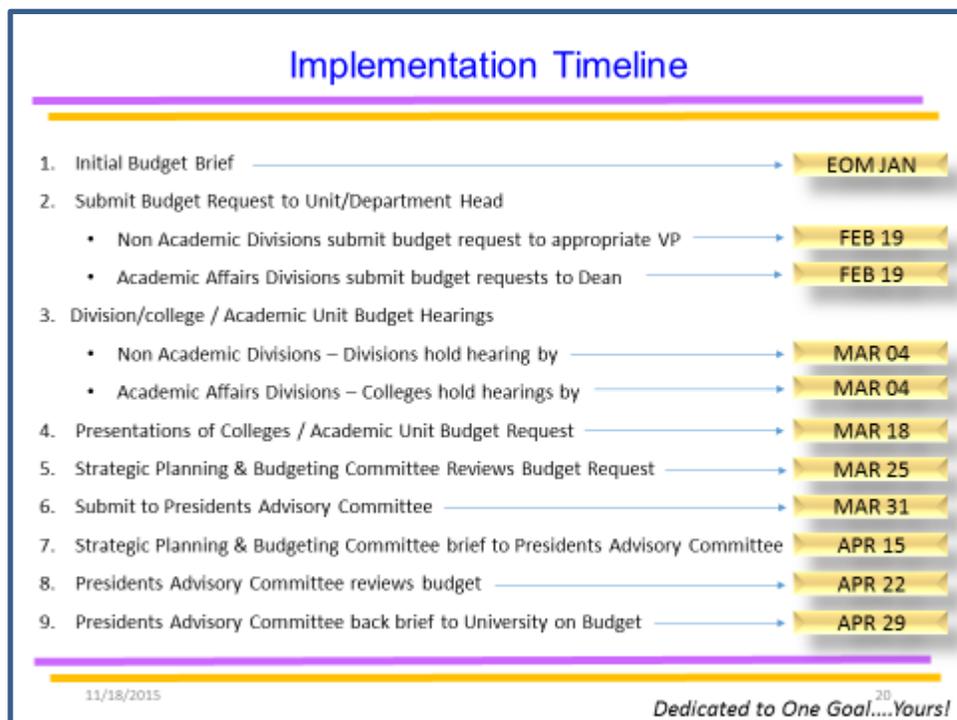
8. The slide below graphically depicts the PPBE process.



9. The slide below reflects a possible PPBE implementation calendar (*this calendar is similar to the one used by Western Carolina University*).



10. This calendar was proposed to President Henderson as “what we think we could do.” The Strategic Planning and Budgeting Committee will determine what is feasible and reasonable and will develop the calendar / timeline.



11. Critical to this process is the establishment of the Strategic Planning and Budgeting Committee (SPBC). The SPBC members include the College Deans, VP University Affairs, VP Academic and Student Affairs, VP Technology Research and Economic Development, VP External Affairs, Faculty Senate President, Representative from Accounting and Budgeting, Student Government President, legal subject matter expert (SME), and both faculty and staff representatives. Note. The President or his designee will determine the committee chair and the number and duration of faculty and staff committee membership. Anticipated duration of service is one complete budget cycle.
12. The SPBC has the following responsibilities:
- A. **Align resources with institutional priorities:** Clearly communicate a commitment to support initiatives tied to the strategic intents of the University, as outlined in The Strategic Framework.
 - B. **Improve budget transparency:** Per Phase 2, implement a process that empowers stakeholders to make budget recommendations (through the NSU Budget Request Template and Briefing). This may include recommending the allocation of new resources as well as the reallocation of existing resources. The committee will make recommendations to the President and his advisory council for decision. Most importantly, the committee will conduct all briefings (colleges and appropriate administrative departments) in open and public forums, making available its recommendations to the entire University community.
 - C. **Reward entrepreneurial efforts:** In recommending the allocation of new resources and/or the reallocation of existing resources, the committee should favorably view and reward proposals that aim to increase net revenues to the University and support our strategic intents.
 - D. **Reconcile program costs and revenues:** In making recommendations, the budget committee should be equipped with standardized and up-to-date data on the expenses and revenues associated with programs and/or organizational budget units.
 - E. **Enhance local autonomy:** With the approval of the appropriate supervisor(s), financial managers can give the latitude to develop and present proposals to the committee. Additionally, all funds should be interchangeable and available for alternative uses, including dollars associated with vacant faculty and staff positions. For academic departments within a college, this should be at the college level. For all other units, this should be at the division level. This type of enhanced flexibility would promote more thoughtful, efficient and creative uses of University funds.
 - F. **Promote improved fiscal stewardship and accountability:** Organizational units that end a fiscal year with a positive fund balance might be able to carry forward remaining funds to the following fiscal year some portion of the prior year balance. While the carry-forward amount would depend on the overall financial position of the University at year-end, the goal would be to allow as

much carry-forward as fiscally possible. Likewise, an organizational unit that overspends its budget is accountable through some commensurate penalty.

G. Develop timeline, schedule budget hearings, and present a University budget:

The committee develops the briefing calendar. Once the briefings are complete, the committee will develop a comprehensive University Budget proposal with a 1-N list of all requirements to the President and his Advisory Council (PAC) for consideration and decision.

H. Reconsideration Process: The committee will develop a process whereby a Dean or administrative equivalent can request a reconsideration of an unfunded requirement should additional compelling information warrant such. This process must occur prior to the submission of the draft budget to the President's Advisory Council (PAC).

13. The President will personally select and notify requested members to serve on his advisory council (PAC). The only standing members are the Chief Financial Officer and the University Internal Auditor.

14. A briefing template is located at Enclosure 1. The exact SPBC briefing format is not prescriptive but rather descriptive in that the brief must provide all necessary information to allow the committee to prioritize and integrate requirements into a University Budget. You can also access examples from Austin Peay University at <http://www.apsu.edu/fin-admin/2014-2015-budget-hearing-reports-and-information> for more insight.

15. Approved by and date. Dr. James B. Henderson, November 16, 2015.

Enclosures:

- 1: Briefing Slide Template
- 2: VII-2 Banner Budget Request Template
- 3: 1-N List Example